GOVERNMENT OF INDIA
FINANCE
LOK SABHA

UNSTARRED QUESTION NO:1285
ANSWERED ON:07.03.2008
LOSS MAKING BANKS
Nandy Shri Amitava

Will the Minister of FINANCE be pleased to state:

(a) the details of Public Sector Banks which have incurred losses during the last three years;

(b) the reasons therefor; and

(c) the steps taken / proposed to be taken by the Government to make these banks profitable?

Answer

MINISTER OF THE STATE IN THE MINSTRY OF Finance (Shri Pawan Kumar Bansal)

(a) & (b): During the last three financial years ended March, 2005, 2006 and 2007, all the public sector banks had reported a Net profit except Punjab & Sind Bank (P&SB), which incurred a net loss of Rs. 71.07 crore during the year 2004-05, mainly due to high risk provisioning, high level of Non-performing Assets (NPAs), low level of capital funds, high transaction cost, low volume of business, etc. However, P&SB has posted net profit of Rs. 108.33 crore and Rs. 218.53 crore for the year 2005-06 and 2006-07 respectively by taking proactive steps such as recovery of NPAs, improvement in asset quality, containing expenditure, etc.

(c) To improve the health of the banking sector in India, in general, and that of Public Sector Banks (PSBs), in particular, and also to bring it at par with international standards, the Reserve Bank of India has prescribed measures for strengthening of risk based prudential supervision, introduction of capital adequacy standards on the lines of the Basel Committee norms, etc. coupled with wide ranging steps undertaken by the Government.After initiation of reforms in early 1990s, financial performance of the banking sector has improved significantly. Balance sheet and profitability indicators viz. Return on Assets, Net Interest Margin, Non-Performing Assets (NPA) Ratios, Provisioning and Classification norms for NPAs, Capital Adequacy Ratio etc. suggest that the Indian banking sector now compares well with global benchmarks. Further, to facilitate quick and efficient decision-making and to provide sufficient managerial autonomy to the Boards of public sector banks to be able to compete internationally, Government announced an Autonomy Package in February, 2005 for these banks. As per this package, the Bank Boards are competent to decide on the issues relating to entering new lines of business as part of overall business strategy, make suitable acquisitions of companies or businesses, close / merge unviable branches, open overseas offices, set up subsidiaries and exit a line of business, etc. The Government has also put in place a mechanism to monitor the overall performance of PSBs on the basis of the 'Statement of Intent on Annual Goals (SOI)' submitted by them on various performance parameters including deposits, advances, non-performing assets (NPAs), cost to income ratio, return on assets (ROA), profit, etc. These steps taken by the Government / RBI have also contributed towards overall increase in profits of PSBs during the years 2005-06 and 2006-07.